

**MINUTES OF THE LOCAL MEETING OF THE
WASHINGTON STATE TRANSPORTATION COMMISSION
September 18, 2008**

The local jurisdiction meeting of the Washington State Transportation Commission was called to order at 9:00 a.m., on Thursday, September 18, 2008 at the San Juan County Council Chamber, Hearing Room, 55 Second Street, Friday Harbor, Washington.

Commissioners present at the meeting were: Chair Dan O’Neal, Bob Distler, Dick Ford, Elmira Forner, Carol Moser, Philip Parker.

CHAIRMAN WELCOME AND COMMISSION INTRODUCTIONS

Chair O’Neal introduced Commissioners and welcomed meeting participants and guests.

**TRANSPORTATION 101 - A BRIEF OVERVIEW OF TRANSPORTATION
FUNDING IN WASHINGTON STATE**

Paul Parker, Senior Policy Analyst, WSTC, provided an overview of the cost of Moving People and Goods and transportation funding in Washington State.

Chair O’Neal explained that the transportation system is mostly supported by the gas tax. The amount that is collected by the state does not increase with the price of gas. The cost of doing business has increased over the years and in its last Washington Transportation Plan, the Commission identified unfunded priorities that total \$38 billion. The Commission and WSDOT have been criticized by some for not focusing on “congestion”, but moving people and products and improving transportation throughout the state is all about reducing congestion.

CITY OF FRIDAY HARBOR

Mayor David Jones welcomed the Commission to Friday Harbor.

Liz Illg, Councilwoman, shared that the town of Friday Harbor is one square mile, with 2200 residents. It is the county seat and a major commercial center for San Juan Island as well as the legal and administrative hub for the county. According to the National Park Service there are 250 thousand visitors every year. According to WSF 300 thousand vehicles drive off the ramp and through the town’s streets annually. There are 700 thousand ferry riders that enjoy the views and amenities of the island. The residents of Friday Harbor pay the highest sewer and stormwater rates in the state, as well as a \$30 fare to come home. The town enthusiastically embraces the new scenic byway designation and the county’s efforts to engage with a larger regional planning organization. The county looks forward to collaborating with state government and non-governmental entities in planning for future transportation needs.

The town wants to reduce the number of cars on the island because it improves the quality of life, lessens burden on the ferries and improves the quality of life for islanders and tourism visitors.

Commissioners and Ms. Illg discussed various options and opportunities, such as infrequent traveler fare surcharges, ferry loading policies, a reservation system and lower cost or free terminal parking at Anacortes, needs involving freight movement and alternative transportation such as flex cars.

SAN JUAN COUNTY COUNCIL AND FERRY ADVISORY COMMITTEE

San Juan Island

Howie Rosenfeld, County Council Chair, shared that he has lived in the San Juan Islands for almost 30 years. During that entire time people have questioned him about the possibility of a landing tax to capture some additional revenue to mitigate the impacts of visitors.

However, that would increase the fare for locals, which is something they don't want to do. He also expressed his concern with the expiration of the frequent user books.

Ed Sutton, San Juan FAC Chair, shared that there is a lot of concern that WSF's future plans will not reflect the differences between routes. Each of the routes has its own idiosyncrasies that will affect the general plan. The continued participation of the FAC's is important in order to maintain open communication between Olympia, WSF service and its customers. The cost and time involved in moving goods to the islands is leading some freight haulers to consider pulling out of island service. The idea of a San Juan Islands reservation system [it's not just for San Juan, i.e., Friday Harbor] concept is difficult for the San Juans. Possibly a pilot reservation system could be put into place; maybe on Sundays to see the effect and how it impacts residents, commerce and visitors.

Commissioner Ford noted that ultimately the decision to implement a reservation system would go to WSDOT and the Governor. He agreed that each route is specific and must be addressed as such. He also expressed that he is intrigued with the suggestion of decreasing the vehicle volume to the islands and what type of infrastructure this would require.

Mr. Rosenfeld responded that there is a struggling transit system on Orcas and San Juan Islands. The big issue is parking at the terminal in Anacortes. As an example; on the 4th of July weekend the Anacortes terminal offered free parking and was full by 10 a.m.

John Whetten, Lopez FAC, shared that free parking at the Anacortes terminal was an incentive for tourists to come to Lopez over the 4th of July. A charter bus was engaged to meet each ferry and transport visitors, which decreased wait time at the terminal.

Commissioner Distler explained while that there is a huge aversion to charging a premium for reservations, there is significant support for forfeiture of the fare paid for customers that are no-shows. One of the problems with a pilot reservation system in the San Juans is that fares are not collected eastbound.

Commissioner Ford noted that a lot of money will be needed to implement an automated reservation system.

Commissioner O'Neal suggested perhaps a partnership between WSF and the local communities can address parking and mobility issues.

Mr. Rosenfeld indicated that if locals are expected to put in money, there will need to be transparency. Communities are doing everything they can to reduce vehicle traffic on the ferry system. If this is successful it may put them in a situation where a vessel might be taken away, which would not be a good thing.

Commissioner Ford noted that some of these things are going to have to be discussed in the Legislature because the issues are so large, whether that happens or not is another issue. He suggested that a Puget Pass concept option that covers both ferry and transit fares for walk-on users be considered.

Commissioner Distler noted that all of these ideas must be considered in light of a huge dollar deficit that the ferry system faces just to keep the existing service running. This deficit, in his opinion, could be as high as \$200 million per year just to sustain the existing service plan. The system as now funded is not sustainable.

Commissioner Moser commented that she agrees with the community's interest in becoming a Public Transportation Benefit Area (PTBA), because federal funds can be accessed for such things as parking lots.

Mr. Rosenfeld explained that there have been two attempts by the local community to work with WSF to develop better intermodal opportunities. San Juan County is the only county that has no state highways. Some of the Capron funds for streets and roads have been lost to WSF. The county does not begrudge the loss of the funds to WSF because the ferry system is their state highway that connects them to the rest of the state.

Commissioner Distler explained that the political difficulty that the ferry system faces is that in excess of 10 percent of all 18th Amendment gas tax funds goes to ferries. In terms of state highway vehicle miles the ferry system carries less than half of one percent of all the vehicle miles generated on state highways.

Gene Knapp expressed that the cost of parking in Anacortes is a big deterrent when it's cheaper to bring the car than it is to park it. There are parking and transportation issues on Orcas as well as Henry and Waldron Islands. He thanked the Commission for coming to the San Juans noting that dialogue is valuable. Hopefully both will leave this meeting with a better understanding of each other's problems.

Rich Peterson shared that the notion of a passenger ferry to Bellingham has become attractive for a lot of people. The reason being is that there was an experimental period a couple of years ago and it seemed to work fairly well. The reason it worked was because Bellingham is a transportation hub. It is easy to get off of the ferry and on to other modes of transportation to get into town. Anacortes does not have that and it's very difficult to make connections. Making Anacortes a better transportation hub would incentivize walk-on passengers.

TOURISM, ECONOMIC DEVELOPMENT AND TRANSPORTATION

Ralph Hahn, President of San Juan Economic Development Council explained that the mission of the Council is to diversify and strengthen the economy of San Juan County while promoting and preserving the overall quality of life for its residents. In trying to carry out its mission the SJCEDC faces interesting challenges. Due to the complexity of demographics of the communities transportation only exacerbates that. It's difficult for the communities to get together to have these kinds of discussions, so the transportation summit was a huge interisland gathering. Some of the island residents would prefer that there be no more growth and almost everyone opposes the development of large-scale businesses, which makes for interesting economic challenges. What is agreed upon is that everyone wants the lifestyle on the islands to remain the same. The population of the county has grown over the last eight years, although it is difficult to obtain factual numbers because of seasonal residents. It is becoming increasingly difficult to maintain a labor pool in the islands because demographically the higher population is in the 45-60 age groups while the younger population is declining. It has become increasingly difficult to hire management level service and technical employees. A lot of the workforce has been on the island for a long time and bought houses before the market went wild. The island is experiencing, on a small scale, the Nantucket labor solution where construction workers are coming over 4-10 hour days. Some of the technical workers are being flown in. Doing inter-island business is difficult because it can take 5-6 hours to make on trip. In closing he commented on the local communities picking up more of the cost for the ferry system. He questioned if that means that Skagit and Whatcom Counties will share in financing the San Juan run, because a lot of money is being spent in those communities. The fact that a Bellingham passenger-only ferry is being discussed is direct evidence that the revenue being enjoyed by Skagit County could be expended in Whatcom County. This would help local business owners. San Juan County does not place a big demand of state services. The ferry system is probably the single largest demand that the county places on state revenue, with the second largest being the school system. He further explained that construction will continue to be a major part of the economy. He noted that the build-out is only at 50 percent of the allowable density. Visitors are critical and there is no question that the community's economy could survive without tourism. The community is also looking to expand its agricultural market with a permanent farmer's market on San Juan Island.

The Council's recommendations:

- Look at economic role that WSF plays in each; the ridership survey is critical.
- Need to look at ROI of transportation investments.
- Concerned Olympia will move too fast on decisions about boats and service without community input.
- Need more conversations with communities about their needs.
- If two boats could land simultaneously at Anacortes, that could help SKAT provide multi-modal connections.

Debra Hopkins, Washington State Tourism Commission shared that for the year 2007 Washington visitor's spent a record \$14.8 billion, which was up 6.5 percent over 2006. The travel industry is Washington's third largest export industry following aerospace and software. In San Juan County tourism is a critical economic driver and Washington State Ferries is the lifeline for residents and transporting visitors to the County. Visitor's spent over \$727 million in San Juan County in 2007, which was up 5 percent over 2006. Since 1991 the San Juan Islands have seen an annual average increase of 5.7 percent per year regarding visitor spending, which is one of the highest in the state. In addition 41 percent of those tax receipts generated by those visitors are returned into San Juan County thereby reducing the resident's taxation. She expressed concern that monies from the hotel/motel tax have been taken from King County and put into the general fund. Those funds could have helped tourism. From a tourism point of view there are four requests directed to the Commission to take a look at:

- State ferries – huge disconnect between ferries and tourism. Ferries are old and rusty and dirty.
- Ferry system should know who is riding the ferries on a daily basis. (Collecting zip codes to determine who is riding the ferries--residents/visitors).
- Border crossings should be made more efficient and friendly (think ahead to the 2010 Olympics).
- Work on promoting the Anacortes/San Juan/Sidney route. Keep it operating during the Olympics.

Commissioner Distler expressed that caution should be used because the operating and the capital budget have been about equal for ferries. The state has been paying from various sources all of the capital cost. In the San Juans the state is also paying for about half of the operating cost. To say that the state is not paying its fair share based on the benefit to its overall economy may not be entirely accurate, because of the fact that on this run, with or without Sidney, three quarters of the cost of providing and operating the run are being paid by the state.

Chair O'Neal pointed out that it can be argued that ferries are a big contributor to the state's tourism.

Commissioner Forner noted that Washington State has always been reluctant to use any money from the general fund towards transportation. The transportation budget needs to have a new resource or additional resources.

Mr. Hahn emphasized that the next crisis in the state will be small rural counties. Visitors bring huge economic benefit to these rural counties. The state does not fully understand the implications that transportation infrastructure has on the economy.

WASHINGTON STATE FERRIES

David Remagen, Service Planning Manager, WSF and Rob Burman, Consultant for WSF, shared information regarding a letter received in August from the Director of the United States Coast Guard.

Mr. Remagen explained that the letter requires that WSF work the ferry crews no more than 12 hours in a 24 hour period. This letter will impact all of the routes systemwide. WSF supports these changes and will do everything that it can to implement these changes and ensure safe operations and in fact improve performance. In order to comply, this will initially require that all of the routes and work schedules be identified that will be impacted. The letter only addresses doubleback, which means that a crew that comes on in the afternoon and works a shift will be off eight hours and then come back in the morning and then work another eight hour shift. That ends up being 16 hours in a 24 hour period and WSF will not be able to exceed 12 hours in any 24, so all of those kinds of work provisions have to be changed.

Chair O'Neal asked if this is negotiable.

Mr. Remagen responded that this is a crew endurance issue that has been around for a number of years; and this is a culmination of those efforts. He explained that WSF is looking at a ways to mitigate this by restructuring its workforce. It may require taking a look at increased funding rather than making service cuts. WSF may have to ask for some additional funding to continue the same level of service in some instances. Until a complete look is taken at all of the route schedules it is not known exactly how it will be handled. Between now and the Legislative session WSF needs to identify what, if anything, it will need in the way of additional service hours. WSF will be working with the community and the Ferry Advisory Committee to determine what changes will be made to comply with the Coast Guard directive. He noted that the Seattle/Bremerton (sailing schedule will not be impacted), Edmonds/Kingston and Mukilteo/Clinton routes will be affected by these changes.

Commissioner Ford questioned if there is anything in the union contracts that might offset some of this.

Mr. Remagen responded that contract negotiations have been attempted, but the union has not been interested.

Commissioner Distler asked if Mr. Remagen is prepared to agree that the following statement is true "that the presence of Sidney on the schedule further complicates, and limits the number of choices available, and might by itself expose us to additional incremental costs."

Mr. Remagen responded that he cannot give a definitive answer, but he does know that Sidney involves a watch schedule that is, right now, 9 hours and 55 minutes. The only way that 9 hours can currently be exceeded is with touring watches, so when the touring watches go away, WSF will then be restricted to 9 hours, which will not cover a 9 hour and 55 minute requirement. So, it is part of the problem that we have to deal with up here.

Mr. Burman explained that WSF is coming up on the third round of public meetings on its way to delivering the Long-Range Plan. It is intended that the plan will be in draft form in early November for public comment as well as being provided to the JTC, Commission and others. Base needs and packages have been identified that will address growth needs in the future.

He moved on to provide highlights of public outreach efforts, strategies that have been developed, base conditions and the funding gap estimated to be \$3.8 billion over 22 years. A lot of time has been spent on looking at a reservation system, transit connections/enhancements and how these would impact ferry users. And lastly, various pricing and demand concepts are being considered.

Commissioner Distler expressed concern that that the Legislature might not fund what is needed and questioned if WSF has a plan B.

Mr. Burman and Mr. Remagen both noted that they are not aware of an alternative plan.

Commissioner Distler explained that he believes that there should be a well thought out alternative plan in the event that the Legislature does not provide additional funding.

Commissioner Forner explained that there should not be an alternative offered up to the Legislature the real needs are the needs.

2008 FERRY CUSTOMER SURVEY – UPDATE

Rebecca Elmore-Yalch, Senior Vice President, Opinion Research Northwest, shared that the on-board surveys have been completed. The survey effort was highly successful, with return rates meeting or exceeding original estimates. There were more than 13 thousand on-board surveys and 12 thousand telephone general market surveys (in counties surrounding Puget Sound) completed. Survey respondents feel that half of the cost of maintaining the system should come directly from those riding the ferries while 28 percent of the cost should come from local taxes or fees paid by residents of ferry-served communities and the balance 22 percent of the cost of operating the system should come from state taxes/fees paid by all Washington residents, while Puget Sound residents would like to have riders continue to pay their current share to maintain the system. They would also like to see the ferry communities assume a greater burden for funding the system. Detailed analysis of all data is currently underway and a final comprehensive survey report will be presented to the Commission at its November meeting.

LONG-TERM FERRY FUNDING STUDY – UPATE

Steve Pickrell, Principal and Senior Vice President, Cambridge Systematics, explained that the purpose of the phase one study completed in January 2008 was to present a comprehensive list of possible funding sources and financing tools drawn from the findings and recommendations of previous studies conducted in Washington State, as well as those used by other ferry systems in the United States and abroad. Phase two of the study is underway and will screen potential funding sources. A comprehensive list of possible funding sources was analyzed to determine which of the sources are most suitable for meeting long-term capital and operating needs. From this a short list of the more promising sources has been identified by the Commission and is being analyzed in more detail. The final funding plan and implementation recommendations will be delivered to the Commission in January 2009.

Mr. Pickrell stepped the Commission through factors affecting capital and operational needs over the next 22 years. He explained that factors affecting capital needs estimates include the

timing of preservation expenditures, the number and timing of vessel acquisitions, construction cost escalation, terminal enhancements beyond “replacement in kind” and financing costs.

Commissioner Distler pointed out that it’s very important to remember that the assumptions in this presentation indicate a capital needs funding gap of \$155 million annually over a 22-year period, which means the same ferry schedule with the same size boats running in 2031. He also noted that if there is no incremental funding to cover the gap then WSF has a serious problem.

Mr. Pickrell moved on to explain that the needs on the operating side (both cost and revenue) are very difficult to predict into the future with any certainty. A pessimistic projection of fuel cost assumes near term decline followed by longer-term increase in cost. Labor costs are based on long-term averages, a lower rate of increase than most recent biennia.

Commissioner Distler indicated that the amount of fuel tax collected is down and affecting the entire transportation budget. This is caused by people driving less and driving more fuel efficient vehicles.

Mr. Pickrell explained that given the magnitude of the capital and operating needs of the system local resources are recommended to supplement state sources of operating income. Locally generated funds would supplement terminal enhancement and preservation as well as a portion of operations. The Commission will need to consider what the appropriate mix of local and state funds will be. Transportation benefit districts should be considered in the mix because they are an existing mechanism with few restrictions on geography or use of funds; a district has bonding authority with voter approval required and when the debt is paid the tax or fee would sunset.

In closing Commissioner’s and Mr. Pickrell discussed the possible scenario of and potential issues with forming a county ferry district, what types of complications there might be at the state and local level.

PUBLIC COMMENT PERIOD

Richard Fralick, resident of Orcas Island for nearly 27 years shared that ferries are a way of life in the islands and any adverse changes will affect the local economy. He emphasized, as other presenters have, that tourism is a very important part of the islands economy.

Paul Dossett shared that he believes that a vehicle system based on weight should be considered. This system would be very fair for everyone because everyone would be paying according to vehicle gross weight.

Patricia McKay, member of the Ferry Advisory Committee and owner of Island Concrete Products, explained that there is a misconception, because trucks do pay an excise tax for weight that is added to the gross.

| The Commission meeting adjourned at 4:00 p.m., on September 18, 2008.

WASHINGTON STATE TRANSPORTATION COMMISSION

DAN O'NEAL, Chair

ELMIRA FORNER, Vice Chair

Not present

PHILIP PARKER, Member

LATISHA HILL, Member

DICK FORD, Member

CAROL MOSER, Member

ROBERT S. DISTLER, Member

PAULA HAMMOND, Ex-Officio Member
Secretary of Transportation

JENNIFER ZIEGLER, Governor's Office

ATTEST:

REEMA GRIFFITH, Executive Director

DATE OF APPROVAL